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Return To:

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CONTROLLING CITY GOVERNMENT EXPENDITURES

What are the principal methods of measuring and controlling city government expenditures?

The purpose of this report is to suggest constructive ways of measuring and controlling city government expenditures without sacrifice either in quality or quantity of service. It should serve as a check list of the principal methods available and also as a guide to the chief administrator in appraising his organization. These methods help in keeping all city government activities under systematic and continuous scrutiny.

As a starting point the chief administrator should be thoroughly familiar with two publications of the International City Managers' Association. The first is "Management Methods in City Government" (1942. 60pp. \$2.) which is appropriately subtitled "A Survey of the Best Practices in Council-Manager Cities." It is based on specific and detailed information supplied by 21 city managers. The second is "Check List on How Cities Can Cut Costs" (1949. 52pp. \$1) which contains 542 items applicable not only to general management but also to major department activities. The extensive list suggests many possible operating improvements which should result in lower operating costs.

A number of cities have used the "Check List" as an objective measure of value given for tax dollars. Pontiac, Mich., and Eau Claire, Wis., for example, obtained departmental "before and after" scores--the ratio between existing and potential economies as represented by the "Check List" on two dates approximately a year apart. The original scores indicated considerable room for improvement, while the year-end scores showed that increased economy was highly practical in a short period of time. A review at the end of two years in Eau Claire showed that 70 per cent of the applicable items had been put into effect with another 9 per cent in process (see Public Management, April, 1952, pp. 83-84). Other cities, such as East Lansing, Mich., have used the "Check List" as a basis for discussion in staff conferences with a view toward adopting some of the improvements suggested.

Administrative Research and Planning. This is one of the most important functions of management and is concerned with studying the problems of organization, coordination, control, reporting, and the like. In a small city it may be done entirely by the chief administrator with the help of an administrative assistant. In larger cities some established department or division, such as the budget office, for example, may carry on continuous studies of organization, performance standards, administrative procedures, departmental reporting, office management, work simplification, standardization of forms, and administrative orders. This list is suggestive, not inclusive. Work simplification and departmental reporting are discussed in separate sections below.

Many studies cross departmental lines, such as inspectional services, equipment management, and so on. Others are concerned with bringing related activities together. Some examples during 1953 are the unified finance departments that were created in Inglewood and Stockton, Calif., Two Rivers, Wis., Oak Park and Wilmette,

Ill., Niagara Falls, N. Y., Medford, Mass., and Lubbock, Tex. Public works activities were consolidated in 1953 in a single department in Monterey, Calif., Lowell and Somerville, Mass., Rapid City, S. D., Florence, S. C., Mankato, Minn., and Two Rivers, Wis.

The chief administrator, department heads, and supervisors need standards for judging the performance of individual employees and work crews. The level of municipal services as a whole is determined in large part by the city's workers and crews. Management's best measure of this accomplishment is in terms of how many work units are performed within a given period of time by a given number of workers. Administrators and supervisors need these performance standards so that they can locate trouble spots, develop better work methods, and demand a higher level of accomplishment on the part of employees.

Too few city officials have taken the time and made the effort to develop with some precision the amount and kind of work they expect from city employees. It is unreasonable to criticize a worker for inefficiency unless performance standards have been developed and are clearly understood by the worker. Performance standards are difficult to develop and have limitations in use; nevertheless the effort is worthwhile in establishing standards of work for all employees. An excellent introduction to this subject is the article, "Performance Standards for City Employees," appearing in *Public Management*, August, 1953, pp. 170-74.

Another phase of administrative research and planning is the broad field of administrative procedures including preparation of payrolls, issuance of licenses and permits, purchasing, tax collection, inventory of municipal property, and methods of filling vacant positions. Some type of administrative manual is helpful in systematizing and controlling these various procedures. An example is the manual nearing completion in San Jose, Calif., which covers all phases of citywide general, financial, and personnel administration (see *Public Management*, January, 1954, pp. 15-16.)

Office management is a term broad enough to include office lay-out, the selection of office machines, and the simplification and standardization of supplies and forms. The simplification and control of the flow of paper through offices is a big job in itself. One phase is a program for the control and standardization of forms and records to reduce the number of forms, avoid duplication, and simplify the methods of handling forms. This subject has been dealt with extensively in ✓ MIS Report No. 81, "Control of Forms and Records". The other principal phases of the control of paper work are records management and filing which are covered in ✓ MIS Reports Nos. 114 and 115, entitled "Municipal Records Management and Control" and "Management of a Municipal Filing System."

Still another phase of administrative research and planning is the drafting of administrative orders, rules and regulations which establish and interpret activities and procedures not covered in municipal ordinances. Usually they cover employee activities, working conditions, purchasing procedures and other matters which do not require formal authorization from the city council (see MIS Report No. 85, "Issuing Administrative Regulations").

Work Simplification. This form of administrative research has significant potentiality in most city halls as a means of achieving the best and cheapest way of performing any task. Work simplification is the general term applied to any systematic attempt to discover a more economical way of performing a task or getting work done. It involves a review of the present way of doing things, a check as to why it is done that way, and finally a decision either that the current method can be improved or that it is the best that can be devised at that time. This subject

is covered in MIS Report No. 123 entitled "Municipal Work Simplification" and in many other publications listed in a bibliography available through MIS. The two cities that probably have been the most active in work simplification are Kansas City, Mo., and Long Beach, Calif. In Kansas City it has been assigned to the department of research and budget, a staff agency whose director reports to the city manager. In Long Beach it has been assigned to the budget and management research division of the finance department.

Departmental Reporting. Periodic factual reports are one basis of administrative control. Fiscal and personnel data can generally be best compiled centrally. Statistics on departmental activities, however, can usually be provided best in the departments where daily activity records are kept. These departmental statistics can be set up on standard forms with an original for the chief administrator and enough copies for departmental use. A good form lists each measureable activity with statistics for the current month, the previous month, and the year to date.

The city manager of Pontiac, Mich., maintains a visible file of these monthly reports which is available for immediate reference in discussion with department heads. As each new sheet is added to the file, only the current figures for each previous month are visible, except for the top sheet which also shows totals for the year. The city manager of Phoenix, Ariz., maintains similar statistics but compiles them into a composite monthly report with copies to the city commission.

This type of departmental reporting applies the tool of measurement to every possible activity. Possible statistics and forms for presentation are shown for almost every municipal activity in the ICMA publication, "Monthly Administrative Reports for Cities" (1950. 32pp. \$2). Subscribers to Management Information Service can obtain this report on loan as well as sample monthly administrative reports of selected cities. The types of records that should be maintained within each city department to supply data for department head reports are described in MIS Report No. 117, "Departmental Records and Reporting."

Budgeting. The budget is an estimate of income and a plan for expenditures in line with income. It has year-round application as a measure for fiscal and activity control. The steps essential to a municipal budget system are described in the article, "How To Install a Budget System," which appeared in the April, 1953, issue of Public Management (pp. 74-77) and in MIS Report No. 61, "The Preparation and Adoption of the Annual Budget").

In the preliminary or preparation phase, the budget requires careful and conservative estimates of income from all sources--local taxes, fees, fines, and service charges, as well as shared taxes and grants-in-aid. It requires equally careful estimates by the head of each department of actual and proposed requirements within the limits of the money available to spend. Suggested procedures and sample forms for this key step in the budget process are given in MIS Report No. 53 entitled "Preparation of Work Programs and Annual Budget Estimates." This report, as indicated by its title, also deals with work program planning.

Past experience will serve as a guide in estimating future expenditure requirements, but the most useful budget will also include a detailed work program showing how the proposed expenditures will be used. Comprehensive work programs have the two-fold function of requiring departmental officials to pinpoint their thinking on actual requirements and of providing concrete information for the city council and the public. In going over the expenditure estimates, the chief administrator must weigh the standards of service requested against available fiscal resources (see MIS Report No. 80, "Guides in Determining Standards of Service in Relation to Budget Estimates").

In preparing the budget the concept of "performance budgeting" should be used as much as possible. The performance budget states the city expenditures in terms of services and activity programs in addition to the usual detailing of personal services, materials and supplies, capital outlay, and so on. While cost accounting is usually thought of as an absolute prerequisite for the performance budget, other non-cost criteria such as manhours can be much more simply applied. A provocative statement of these non-cost criteria is contained in the article, "Some Non-cost Approaches to Performance Budgeting," in *Public Management*, January, 1954, pp. 9-12.

After the city council has adopted the budget and appropriated the money to carry it out, its control features go into effect. One of these features is an allotment system in which the total amount appropriated for each purpose is divided into amounts which can be spent quarterly or monthly. Special authorization must be obtained to spend more than the amount allotted for the quarter or month. An allotment system serves the chief purpose of spreading expenditures evenly throughout the year (taking into account seasonal variations). It also simplifies review and direction.

To illustrate, Cleveland, Ohio, adopted monthly allotments to discourage year-end spending designed to use up full departmental appropriations and justify the amount requested. In many cities the allotment system is made necessary by the nature of the revenue schedule--tax payments come in with a rush at a single season of the year but must be husbanded for the balance of the year when income is very light. In Pontiac, Mich., the city manager keeps a monthly report showing income and expenditures for all departments and unencumbered balances in each departmental budget.

Another helpful method of controlling expenditures is to systematize the scheduling of large construction projects. Corpus Christi, Tex., has begun scheduling projects so that the status of each project is known at all times by the city manager and other city officials. This method of control in Corpus Christi is described in *Public Management*, May, 1954, p. 106. MIS Report No. 55, "Scheduling Projects for the Annual Construction Program," covers this topic and includes forms and regulations developed in Kansas City, Mo.

"Municipal Finance Administration," the reference manual published by the International City Managers' Association, contains chapters on budget making and budget administration, with sample estimate forms and sections on preparing the annual work program, estimating revenues, setting up an allotment system, and administration of the revenue program.

Accounting. Municipal accounting provides records of financial transactions that can be used as a basis for managing the city's affairs, determining the fidelity of officials who administer municipal funds, and informing administrative officials, the city council, and citizens of the city's financial condition and operations. Accounting as such provides no control over the cost of government, but when combined with the budget in budgetary accounting and with auditing, it furnishes a sound basis for control. Both budgetary and general municipal accounting require complete account classification. One accounting principle stipulates that the terminology for both budgetary and general accounting should be identical. A detailed presentation of revenue, expenditure, and balance sheet accounts is published as "A Standard Classification of Municipal Accounts" by the Municipal Finance Officers Association (1313 East 60 Street, Chicago 37, 1953. 14Opp. \$3.)

When the budget allotment figures are established, they are certified to the finance officer who posts them to the necessary accounts and sees that expenditures do not exceed allotments without special permission from the chief administrator of the city. In order to provide each department head and the chief administrator with sufficient up-to-date data to plan and control expenditures judiciously, departmental budgetary accounts should be summarized monthly in tabular form. A typical summary, for San Diego, Calif., shows for each account the amount budgeted during the allotment period, the amount spent, and the balance remaining.

One of the most important purposes of budgetary accounting is to provide data for review of departmental operations and for budget control. As each month's expenditures are cleared, reports should be compiled for each department showing operating data and expenditures for each month and the year to date. The operating data are composed of statistics on departmental activities while expenditure data are composed of allotments and actual expenditures on an object breakdown. At any time during the fiscal year the chief administrator can compare and analyze trends from month to month.

In addition to administrative control, such reports are invaluable in supplying information promptly to the city council and to interested citizens. Display charts in two or more colors can be prepared to compare expenditures with allotments, and new figures can be posted to the charts each month.

Cost accounting, a specialized phase of the field, is of particular value as a means of control over municipal expenses. Cost accounting is the process of determining and recording all the elements of expense incurred in completing a single unit of work such as installation of a traffic signal, a visit of the public health nurse, or collection of a particular tax. Both the total cost and the unit cost of each project are determined from the four elements that comprise it--labor, equipment expense, materials and supplies, and overhead.

The largest share of cost accounting to date has been applied to municipal public works departments in such cities as Kenosha and Beloit, Wis.; San Diego, Calif.; and Flint, Mich.; to utilities in Detroit, Mich., and to hospitals in Los Angeles County, Calif., and Wayne County, Mich. A joint committee of the Municipal Finance Officers Association and the American Public Works Association is engaged in defining appropriate work units for cost accounting purposes, and Public Administration Service has planned 1954 publication of a booklet on cost accounting for small cities, with principal application to public works departments.

Generally, cost records should be compiled and computed in the central finance office, with comparative monthly reports for the chief administrator and the department heads. To have value, such records should be processed within 10 days of month end.

Mechanical accounting machines can be of considerable assistance in making good cost records feasible, and any city which is contemplating the purchase of a machine should consider this aspect. Also, a city which has mechanical equipment that is not being used for cost records should investigate the possibility of this additional application. The speed and versatility of machine accounting makes the cost data much more timely and valuable than similar data which is hand posted.

Cost records kept over a period of time for specific activities and projects should form a pattern. Records for each of the cost components (labor, equipment, materials, and overhead) will also indicate the extent and direction of change in these elements. Periodic study of the shifting patterns will reveal changes that may not be readily explained by market fluctuations, thus suggesting need for improvements in supervision, training of equipment operators, or changes in purchasing procedure.

Purchasing. One of the most significant controls over the cost of city government lies in centralized purchasing based on carefully drawn specifications and followed up with suitable inspections before the material or equipment is accepted. A single purchasing agent, familiar with market trends, advantages of seasonal and quantity buying for certain commodities, and current developments in the purchasing field can be of considerable assistance to department officials. His careful scrutiny of purchase requisitions provides a check on indiscriminate buying, or provides opportunity for savings by combining the purchases of similar items for different departments.

The manual "Purchasing for Small Cities" (Public Administration Service, 1313 East 60 Street, Chicago 37. 1951. 23pp. \$1) and the chapter on purchasing in "Municipal Finance Administration" (International City Managers' Association, 1949, 491pp. \$7.50) will provide administrators with helpful guidance on centralized purchasing. Another aid for purchasing agent is the National Directory of Commodity Specifications, published by the National Bureau of Standards in Washington, D. C. with its occasional supplements. Some cities have published guides for selling and purchasing. Among them are University City, Mo.; Boulder, Colo.; and Des Moines, Iowa.

A spectacular saving to the city often is achieved through competitive bidding in buying insurance. Park Forest, Ill., recently effected a saving of 37 per cent on the cost of workmen's compensation and general liability insurance through competitive bidding. The procedure is summarized briefly in the May, 1953, issue of Public Management, p. 117. Two MIS reports on reducing insurance costs are No. 33, "How To Reduce Municipal Insurance Cost," and No. 74, "Procedure in Purchasing Municipal Insurance."

Inventory control of municipal property is an often neglected phase of city financial procedures. Adequate and current records of city-owned real and personal property are not only a fiscal control but also a positive aid to management. MIS Report No. 73, "Inventory Control of Municipal Property," sets forth suggestions for personal property control based in part on practices and procedures in Long Beach and San Diego, Calif., Portland, Ore., and Kansas City, Mo. A forthcoming MIS report will deal extensively with inventory control for city-owned real property.

Controlling Municipal Debt. Careful and informed marketing of municipal bond issues is one of the best ways of controlling long-term expenditures. Any bond issue is hazardous unless preceded by a long-term capital improvements program, a list of priorities for capital improvements, and a capital budget.

Once the decision has been made to issue bonds, several positive steps can be taken to mitigate the high cost of borrowing money. The timing of a bond issue is important so that an issue is not offered at the same time that other larger issues are being placed on the market. Many cities do little or no advertising for bond issues. Many that do advertise have not done it aggressively by mailing advance notices of sales to a good list of prospects and by advertising widely in the financial journals. These and other steps are outlined in the article, "The High Cost of Municipal Borrowing" (Public Management, September, 1953, pp. 194-97). Helpful suggestions will be found in greater detail in Marketing Municipal Bonds published by the Municipal Finance Officers Association, 1313 East 60 Street, Chicago 37 (1946. 12 pp. 50 cents).

A well-written and attractively illustrated bond prospectus is an aid in securing a favorable price on a bond issue. Cities that have issued well prepared prospectuses recently include Eau Claire and Two River, Wis.; Lawrence, Kan.; Lubbock, Tex.; Kalamazoo, Mich.; University City, Mo.; Richmond, Va.; and San Diego, Calif.

Personnel. There are a number of nonfiscal means of controlling costs in municipal government. A positive personnel program is one of the most important. Specific control elements in the personnel program are position classification and pay plans, periodic service rating, attendance records, and definite procedures for filling vacancies or creating new positions.

The position classification plan includes a detailed description of each different type of job in the city organization, showing the minimum requirements for individuals in each class and lines of authority for all jobs in the organizational hierarchy. The classification plan serves as basis for a comprehensive pay plan, and its control feature is the requirement that every job in the city organization be given a title and an accurate description.

The pay plan is a logical arrangement of salaries or wages, showing the range, intermediate steps, and pay grade or level for each job class. Elements of cost control in the pay plan are the definite and specific step intervals within each salary range and the common provision that step increases may be earned only for tenure or demonstrated merit on the job. The implied assumption is that employees will be rewarded according to their ability and productivity, but that all employees doing substantially the same type of work will be paid within the same pay range.

Service rating is a method of evaluating the effectiveness of each employee and recording the evaluation on standard forms. Service ratings are to personnel administration what cost accounting is to financial administration--giving an appraisal of an employee's demonstrated effectiveness in relationship to his potential. When used as a tool of supervision, service ratings have considerable value to supervisors, department heads, and the chief administrator. The service rating plan set up in Phoenix, Ariz., measures employee performance on a four point graphic scale: unsatisfactory, below standard, standard, and outstanding (see Public Management, February, 1953, p. 42).

Personnel records of attendance and leave provide the administrator a further check on municipal economy. Reports which show the incidence of one and two-day absences, as well as total time lost and departmental averages of absence due to illness, provide the basic information for corrective action, if it should be indicated. Sick leave records which merely show totals or averages present only a partial picture, since absences due to illness are generally concentrated among a relatively small group of employees who take short periods off with considerable regularity.

Recent experience of several cities indicates an average absence per employee of about five days a year but one of these cities, San Diego, found that good records plus firm supervision reduced sick leave from an average of nine days in 1946 to under three in 1950, with an estimated saving of \$180,000 per year. If officials in other cities will compute their sick leave costs this way, in dollar volume, they may be impressed by the potential savings in reducing average absences by even one day per year.

Several MIS reports have been issued that will be helpful to city officials in developing a leave of absence program. MIS Report No. 23 describes employee service folders and record cards that can be used for recording attendance and leave. MIS Report No. 39 has a detailed discussion of sick leave administration and suggested sick leave regulations. MIS Report No. 76 covers the administration of all types of leaves of absence.

The chief administrator of a city should maintain firm control over the number and type of jobs in his organization, and over the capabilities of the people who fill them. A formal program of entrance and promotional examinations provides positive assistance to department heads and saves their time in selection of the best-qualified available people. Cities can get assistance in examinations from their state personnel department in some states, from their state league of cities in others, from larger cities, from certain commercial organizations that provide standardized intelligence, aptitude and psychological tests, and from Civil Service Assembly, (1313 East 60 Street, Chicago 37) which maintains a test exchange service on a subscription basis.

Large cities in particular use a certification system for filling vacancies, which, though formal, can be profitably applied in the smaller organizations. When a vacancy occurs or a department head feels a new or additional position is required he certifies the fact to the personnel officer. The position is then investigated, qualifications and duties defined, and the need established or denied. These steps of certification and investigation generally assure that only essential jobs and vacancies will be filled. When a position is "audited" in this way it may be determined that the work can be done as well or better by transferring functions to other employees, with a consequent saving in manpower (see MIS Report NO. 67,) "Establishing Job and Work Controls."

In-service Training. Widespread development of training programs among professional organizations suggests growing awareness of the benefits that accrue to these organizations and their members. Cities can provide employee training at low cost that will result in improved public relations, higher production, fewer time-lost accidents, less damage to equipment and greater efficiency. Local facilities not only exist through competent personnel already in the city organization but in local college or high school adult education classes as well.

Cities can take advantage of work simplification and certain kinds of vocational training provided by visiting instructors from the extension division of their state university, and specialized training provided by state boards of vocational education on a shared-cost basis. Some 70 cities thus far in 1954 have enrolled groups in management training provided by the International City Manager's Association. In California, Illinois, Wisconsin, and Missouri, the state boards for vocational education used ICMA training materials in courses for city administrative personnel in police, fire, public works, and municipal administration courses.

Other cities have taken advantage of safety training and driver instruction films provided by automobile manufacturers, insurance companies, and state university film libraries. Driver instruction results in longer vehicle life, independent of accident reduction.

Suggestive approaches for group training are set forth in the Public Management article, "Group Training for City Employees" (August, 1953, pp. 178-79). Groups organized recently in Eau Claire, Wis., Evanston, Ill., Phoenix, Ariz., and Richmond, Va. are discussed briefly in Public Management, May, 1954, p. 108.

Note: All of the MIS reports mentioned in this report are available on 30-day loan to MIS subscribers.